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16 APR 1964

MEMORANDUM FOR: Chief, Audit Staff

THROUGH: Deputy Director for Support

SUBJECT: Report of Audit of Procurement Division
1 October 1961 to 31 December 1963

REFERENCE: Memorandum to Director of Logistics from
Chief, Audit Staff, dated 30 March 1964,
same subject

1. Each comment below has the same number as the paragraph in the audit report to which the comment pertains:

3.a. As a result of [] dated 27 January 1964, the Procurement Division is currently very extensively involved in the planning of research and development type contracts. Also, the recommendations which were submitted to the Deputy Director for Support on 20 November 1963, subject: Proposed Headquarters Notice, subject: Procurement Policies, have and will materially improve the past situation in integrating Procurement Division in the early stages of technical plans for all types of contracts. This notice is pending approval and publication.

3.b. Replies below are numbered to correspond with each pertinent subject in paragraph 5 of the audit report:

5.a. In the past, when contracts have exceeded the property-cost authorizations of the requisition by not more than ten percent, the Procurement Division has proceeded with procurement action. Copies of the procurement instruments are sent to the sponsoring component and financial obligatory adjustments are made upon receipt of such documents. All of the components with which the Procurement Division has had relationships over an extended period of years have this understanding and there have been no objections nor problems on this matter for a period of eight or nine years. If the amount exceeds ten percent,

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authority of the sponsoring component is obtained verbally and a notation of this fact is made in the Procurement Division file. If the Procurement Division were required to obtain written authority from the sponsoring components when the requisitions as submitted are only estimated in cost at the very best, the entire procurement process would be more time-consuming and cumbersome. Since none of the sponsoring components have found any difficulty with the present procedures and practices of the Procurement Division, I feel that in the interest of efficiency the present practices should be continued.

5.b. We will amend LI 1-3 as recommended.

5.c. We will amend LI 1-3 as suggested.

5.d. This is an omission on the part of the contractor and the dates so omitted cannot legally be supplied by anyone other than the signatory to the contract. In such instances, we will indicate the approximate date on which the contractor signed the contract. Also, we will determine from the contractor the approximate date of signature.

3.e. We have reviewed this recommendation in detail with representatives of the Audit Staff. The review adequately demonstrated that the documentation was contained in the [redacted] files. It should, however, be realized that the type of procurement effected

[redacted]

that individual selections are made from seller's stock on hand as a general rule and the problem of a detailed specification requirement is most often not present. Also, the rigidity with which the [redacted] is required to respond to operational requirements of the Agency for procurement in some instances almost prohibits the type of detailed documentation which auditors find and

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expect in the normal type of Government transactions. We believe that there is adequate documentation to support the kind of procurement actions which the [redacted] handles in most instances. However, we will continue to exercise care in documenting actions.

3.d. It has been impractical in the past to formalize agreements with major suppliers in over-the-counter purchases because to do so would destroy the [redacted] procurement action is ordinarily effected. The only practical way in which this could be done is to have a unilateral document which sets forth a basis of agreement with the source where the source is cleared and witting of the Agency's interest. In all other cases, however, such formalization of agreements is impractical.

2. We appreciate the assistance which the Audit Staff has given us.

[redacted]
JAMES A. GARRISON
Director of Logistics

cc: DD/S (2)

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OL/PD: [redacted]

(13 Apr 64)

*for
14 April 64*

*[Signature]
15 April 64*

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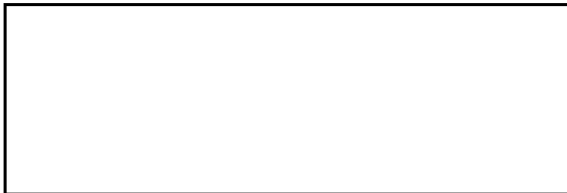
30 March 1964

MEMORANDUM FOR: Director of Logistics

THROUGH : Deputy Director (Support) *V.T.* 01 APR 1964
SUBJECT : Report of Audit of Procurement Division
1 October 1961 to 31 December 1963

1. Attached is subject report. Please advise this office of the action taken on the recommendations contained in paragraph 3 of the report.

2. We appreciate the cooperation and assistance extended to members of our staff during the audit.



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Chief, Audit Staff

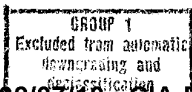
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AUDIT STAFF REPORT OF AUDIT

This report presents the findings developed from an audit undertaken pursuant to Audit Staff responsibilities and authorities set forth in organization regulations. Unless otherwise indicated in the report, the audit included review and appraisal of internal controls and procedures and such other audit processes, test checks and verification of accounts, assets and transactions as were considered appropriate and consistent with generally accepted audit standards in the circumstances.

The objectives of the audit were to determine for management whether

- (1) Adequate controls and procedures have been established and are being applied effectively to safeguard organization resources and assure that resources are used only for approved and legal purposes, and
- (2) Activities are being conducted economically, efficiently and in conformance with policy determinations and directives.

Procurement Division

For the period:

From 1 October 1961

Through 31 December 1963

Chief, AAE Division

Date 30 March 1964

This report consists of 5 page(s).

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REPORT OF AUDIT
Procurement Division

For the Period
1 October 1961 - 31 December 1963

INTRODUCTION

1. This audit covers activity of the Procurement Division (PD) of the Office of Logistics other than procurement by Project

SUMMARY OF FINDINGS AND RECOMMENDATIONS

2. The administration and operations of the PD were found to be generally good. However, there is a continuing need for the Division to participate to a greater extent in the planning and execution of R&D type contracts. Also, we found need for strengthening administrative control over the execution and amendment of procurement action and improvement of [redacted] operating procedures.

3. Recommendations arising from our audit are summarized below and discussed in the paragraphs indicated:

- a. Make specific arrangements with requisitioning components for direct participation by Procurement Division in procurement planning and execution as prescribed by [redacted] (Paragraph 4)
- b. Clarify published procedures for negotiating and finalizing contracts. (Paragraph 5)
- c. Improve documentation of [redacted] procurement actions. (Paragraphs 6-9)

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- d. Formalize agreements with major suppliers used for over-the-counter purchases. Where this is not feasible, prepare memorandum for the record to substantiate the details of agreements.
(Paragraph 10)

DETAIL COMMENTS

Continuing Need for Procurement Division To Exercise More Control and Participate to a Greater Extent in the Preliminary Stages of Procurement Action

4. In the previous audit report we discussed the desirability of greater participation by the Procurement Division in selecting the sources of supply, obtaining cost estimates, and evaluating all aspects of proposed procurements. This continues to be a problem area. During the audit we found numerous instances, particularly in research and development contracts, where the requisitioning component had selected a source and completed all negotiations and the only function remaining to be performed by PD was formalizing the procurement documents. In one instance after the requisitioner had arrived at an understanding with a supplier for a CPFF contract, the PD obtained additional proposals and signed a fixed price contract at considerable savings. We recommend PD continue its efforts to enforce the provisions of Procurement [redacted] limiting action on research and development contracts by components to the solicitation of proposals on technical aspects of work to be done and general cost and time factors involved.

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Need for Clarification of Published PD Policies and Procedures in Negotiating and Finalizing Contracts

5. In a considerable number of procurement actions reviewed which resulted in contracts, the published policies and procedures of PD were not complied with because of misinterpretations of stated policies and procedures. Areas which require attention in this regard are detailed below:

- a. Contracts sometimes exceed the property cost authorizations of the requisition, and no action is taken to obtain approval from the requisitioning component before finalizing. Approval should be obtained from component before executing procurement action.

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- b. Procurement Division officials have been authorized to execute contracts within stated dollar limits. According to LI-1-3 amounts in excess of those specified for each contracting officer position shall require approval by higher authority. The method of approval is not indicated in the Logistics Instruction. The method being used is endorsement on Form 1218, "Procurement Justification Supplies and Services," by Director of Logistics or Chief, Procurement Division. We feel that LI-1-3 should be revised to clarify the method of delegating the increase in contracting authority.
- c. Contracting officers negotiate and execute contract amendments in increments up to the amount of their authority resulting in final contracts which sometimes exceed their delegated authority. LI-1-3 should be revised to clearly state the amount that contracting officers can sign in amending existing contracts.
- d. Contracts do not generally show the date of acceptance and signature of contractor. We believe established procedures should provide for the signing and dating of contracts.

We recommend that the Procurement Division adhere more closely to established procedures for negotiating and finalizing contracts and clarify the authority of contracting officers.

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that the Agency interests have been adequately protected. We recommend that agreements with all major suppliers used for over-the-counter purchases be formalized or in cases where a formal written agreement is not feasible a unilateral memorandum be prepared to substantiate the details of security, pricing, and other arrangements with each supplier. ☐ has agreed to document informal agreements with major suppliers.

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